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MEMORANDUM

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TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

2011 APR -6 P 1:49

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 6, 2011

RE: STAFF REPORT FOR GRANITE MOUNTAIN WATER COMPANY, INC.'S
APPLICATION FOR AUTHORITY TO INCUR LONG-TERM DEBT.
(DOCKET NO. W-02467A-10-0483)

Attached is the Staff Report for the Company's application for authority to incur debt.
Staff recommends approval with conditions.

Any party who wishes may file comments to the Staff Report with the Commission's
Docket Control by 4:00 p.m. on or before April 20, 2010.

SMO:JMM:red

Originator: Jeffrey M. Michlik

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

APR - 6 2011

DOCKETED BY	<i>[Signature]</i>
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Docket No. W-02467A-10-0483

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

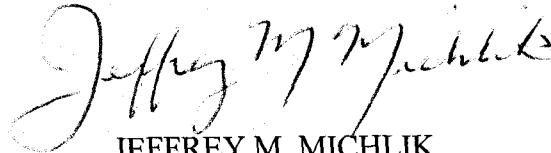
**GRANITE MOUNTAIN WATER COMPANY, INC.
DOCKET NO. W-02467A-10-0483**

APPLICATION TO INCUR LONG-TERM DEBT

APRIL 6, 2011

STAFF ACKNOWLEDGMENT

The Staff Report for Granite Mountain Water Company, Inc., Docket No. W-02467A-10-0483 is the responsibility of the Staff members listed below. Jeffrey M. Michlik is responsible for the financial analysis. Dorothy Hains is responsible for the Engineering review.



JEFFREY M. MICHLIK
PUBLIC UTILITIES ANALYST V



DOROTHY HAINS
UTILITIES ENGINEER

EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY, INC.
DOCKET NO. W-02467A-10-0483

On December 2, 2010, Granite Mountain Water Company, Inc ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to incur long-term debt in separate loans from the Water Infrastructure Finance Authority of Arizona ("WIFA") and the National Bank of America. On February 28, 2011, the Company submitted an amended application seeking authorization to obtain all of its long-term debt financing from WIFA and, in the event that it could not obtain the total amount of the requested debt from WIFA, to obtain debt financing from the National Bank of America for the remainder.

The Company is a for-profit Class "D" Arizona public service corporation engaged in providing water services in Yavapai County, Arizona. The Company seeks to borrow \$181,320 to finance construction of a replacement well and a 50,000-gallon storage tank. Decision No. 71869, dated August 31, 2010, directed the Company to either drill a replacement for its existing well No. 5 or construct a 110,000-gallon storage tank.

As of December 31, 2008, the Company's capital structure consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, and 100.0 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$181,320, 20-year amortizing loan at 7.0 percent per annum, and it is composed of 0.7 percent short-term debt, 28.0 percent long-term debt and 71.3 percent equity. Staff also calculated pro forma at 3.56 debt service coverage ("DSC") ratio. The DSC results show that cash flow from operations is sufficient to cover all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service.

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed long-term debt financing for the purposes stated in the application is within the Company's corporate powers, is compatible with the public interest, and is consistent with sound financial practices.

Staff recommends authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$181,320 pursuant to a loan agreement with WIFA, or alternately if necessary, from the National Bank of America.

Staff recommends that any authorization to incur long-term debt granted in this proceeding terminate on December 31, 2012.

Staff recommends authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Company file with Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of the execution of any financing transaction authorized herein.

Staff recommends that Granite Mountain file with Docket Control as a compliance item in this matter, copies of an ADEQ Approval To Construct ("ATC") for proposed well and storage tank within 90 days of this decision. Staff further recommends that Granite Mountain file with Docket Control a copy of AOC for both plant additions as a compliance item in this docket within 180 days of obtaining the ATC.

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INTRODUCTION

On December 2, 2010, Granite Mountain Water Company, Inc ("Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to incur long-term debt in separate loans from the Water Infrastructure Finance Authority of Arizona ("WIFA") and the National Bank of America. On February 28, 2011, the Company submitted an amended application seeking authorization to obtain all of its long-term debt financing from WIFA and, in the event that it could not obtain the total amount of the requested debt from WIFA, to obtain debt financing from the National Bank of America for the remainder.

PUBLIC NOTICE

In compliance with a Procedural Order dated December 22, 2010, the Company mailed a revised notification to customers of its financing application. On January 7, 2011, the Company filed with Docket Control a copy of the Notice and a signed affidavit verifying the mailing.

BACKGROUND

The Company is a for-profit Class "D" Arizona public service corporation engaged in providing water services in Yavapai County, Arizona. The Company presently provides utility service to approximately 110 water customers.

The Company's current rates were established in Decision No. 71869, dated August 31, 2010.

Decision No. 71869 also directed the Company to either drill a replacement for its existing well No. 5 or construct a 110,000-gallon storage tank.

COMPLIANCE

Decision No. 71869 allowed the Company six months from its effective date to file an Arizona Department of Environmental Quality ("ADEQ") Approval To Construct ("ATC") for a 110,000-gallon storage tank, or in the alternative, eighteen months to file an ATC for a replacement well. Staff's Compliance Database indicates that the Company has not filed either.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The Company seeks to borrow \$181,320 to finance construction of a replacement for its Well No. 5 and a 50,000-gallon storage tank. The Company has requested Commission authorization to borrow \$181,320 in long-term debt. The Company initially requested authorization to incur debt from two funding sources: WIFA in the amount of \$108,792 and the National Bank of America in the amount of \$72,528. Subsequently, the Company amended its application and now seeks authorization to obtain all of its long-term debt financing from WIFA. In the event that the Company can not obtain the total amount of the requested debt from WIFA,

it requests authorization to obtain debt financing from the National Bank of America for the remainder.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff reviewed the Company's proposed capital improvements and found that the projects amounting to \$181,320 are appropriate and the related cost estimates reasonable. Staff makes no "used and useful" determination of the proposed improvements, nor any conclusions for rate base or ratemaking purposes.

FINANCIAL ANALYSIS

Staff's analysis is illustrated in Schedule JMM-1. Column [A] reflects financial information established in the Company's prior rate case based on a test year ended December 31, 2008.¹ Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a 20-year, \$181,320 amortizing loan at 7.0 percent per annum.

DSC

DSC represents the number of times internally-generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JMM-1, Column [A] shows that for the year ended December 31, 2008, a DSC calculation was not meaningful since the Company had no authorized long-term debt. The pro forma DSC for the Company under the scenario described above for Column [B] is 3.56.

Capital Structure

At December 31, 2008, the Company's capital structure consisted of 100 percent equity (Schedule JMM-1, Column [A], lines 15-21). Staff calculated a pro forma capital structure reflecting issuance of a \$181,320 20-year amortizing loan at 7.0 percent per annum, and it is composed of 0.7 percent short-term debt, 28.0 percent long-term debt and 71.3 percent equity (Schedule JMM-1, Column [B], lines 15-21).

¹ Staff used in its analysis the audited financial information from the 2008 test year, as the Company had difficulty producing accurate, updated financial information.

Capital Structure inclusive of AIAC and CIAC

As of December 31, 2008, the Company's capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC")² consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, 96.8 percent equity, 3.2 percent AIAC and 0.0 percent CIAC (Schedule JMM-1, Column [A], lines 26-36).

CONCLUSION AND RECOMMENDATIONS

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within the Company's corporate powers, is compatible with the public interest, and is consistent with sound financial practices.

Staff recommends authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$181,320 pursuant to a loan agreement with WIFA, or alternately if necessary, from the National Bank of America.

Staff recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff recommends authorizing the Company to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff recommends that the Company file with Docket Control, as a compliance item in this matter, copies of the loan documents within 60 days of the execution of any financing transaction authorized herein.

Staff recommends that Granite Mountain file with Docket Control as a compliance item in this matter, copies of an ADEQ Approval To Construct ("ATC") for proposed well and storage tank within 90 days of this decision. Staff further recommends that Granite Mountain file with Docket Control a copy of AOC for both plant additions as a compliance item in this docket within 180 days of obtaining the ATC.

² Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

FINANCIAL ANALYSIS

	<u>[A]¹</u> <u>12/31/2008</u>		<u>[B]²</u> <u>Pro forma</u>	
1 Operating Income	\$32,616		\$32,616	
2 Depreciation & Amort.	27,374		27,374	
3 Income Tax Expense	0		0	
4				
5 Interest Expense	0		12,556	
6 Repayment of Principal	0		4,314	
7				
8				
9 DSC				
10 [1+2+3] ÷ [5+6]	NM ³		3.56	
11				
12				
13 Capital Structure				
14				
15 Short-term Debt	\$0	0.0%	\$4,314 ⁴	0.7%
16				
17 Long-term Debt	\$0	0.0%	\$177,006	28.0%
18				
19 Common Equity	\$451,303	100.0%	\$451,303	71.3%
20				
21 Total Capital	\$451,303	100.0%	\$632,623	100.0%
22				
23				
24 Capital Structure (inclusive of AIAC and Net CIAC)				
25				
26 Short-term Debt	\$0	0.0%	\$4,314	0.7%
27				
28 Long-term Debt	\$0	0.0%	\$177,006	27.3%
29				
30 Common Equity	\$451,303	96.8%	\$451,303	69.7%
31				
32 Advances in Aid of Construction ("AIAC")	\$14,710	3.2%	\$14,710	2.3%
33				
34 Contributions in Aid of Construction ("CIAC") ⁵	\$0	0.0%	\$0	0.0%
35				
36 Total Capital (Inclusive of AIAC and CIAC)	\$466,013	100.0%	\$647,333	100.0%
37				
38 AIAC and CIAC Funding Ratio ⁶	3.2%		2.3%	
39 Lines (32+34)/(36)				

¹ Column [A] reflects financial information established in rate case Decision No. 71869 (W-02467A-09-0333) for the test year ended December 31, 2008, including recognition of a \$125,000 infusion of paid-in-capital.

² Column [B] is Column [A] modified to reflect issuance of the proposed \$181,320 debt financing amortized for 20 years at 7.00 percent.

³ Not Meaningful.

⁴ Pro Forma Short-term Debt represents the year one principal portion of the proposed loan.

⁵ Net CIAC balance (i.e. less: accumulated amortization of contributions).

⁶ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

MEMORANDUM

DATE: March 7, 2011

TO: Jeff Michlik
Public Utilities Analyst V

FROM: Dorothy Hains, P. E. DH
Utilities Engineer

RE: Application of Granite Mountain Water Company for Authority to Incur Long-term Debt (Docket No. W- 02467A-10-0483)

Introduction and Background

On August 31, 2010, the Arizona Corporation Commission ("ACC" or "Commission") issued Decision No. 71869, in this Decision the Commission ordered Granite Mountain Water Company, Inc ("Granite Mountain" or "Company") to make certain improvements to its water system¹.

On December 2, 2010, the Company filed a Financing Application ("Application") requesting authority to incur long-term debt and in accordance with Decision No. 71869, to finance water system improvements which include the replacement of the water company's Well No. 5² and the addition of water storage Tank No. 3³.

On February 28, 2011, Granite Mountain filed an amendment to its Application requesting approval of a Water Infrastructure Financing Authority ("WIFA") loan in the amount of \$181,320 to install the replacement well and add the new storage tank.

System Evaluation

Granite Mountain owns and operates a water system that consists of two wells producing a total flow of 75 gallons per minute ("GPM"), two storage tanks having 55,000 gallons of total storage capacity, and a distribution system serving approximately 110 metered customers. Staff believes that the Company's proposal to add additional well production and storage as proposal complies with the requirements of Decision No. 71869.

Arizona Department of Environmental Quality ("ADEQ") Compliance

¹ Specifically the Company was ordered to drill a replacement well or construct and install a 110,000 gallon storage tank.

² Arizona Department of Water Resources Well 55-622083.

³ The Application specified a storage tank having 50,000-gallons of capacity.

Staff received a compliance status report from ADEQ dated January 10, 2011, in which ADEQ stated that Granite Mountain's water system (ADEQ Public Water System Identification No. 13-150) has no major deficiencies. ADEQ has determined that the water system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance

Granite Mountain is located in the Prescott Active Management Area ("AMA") as designated by ADWR, and is subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated December 8, 2010, in which ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

ACC Compliance

A check of the ACC Utilities Division Compliance database showed that Granite Mountain, as of March 9, 2011 had one delinquent compliance item. The Company had not filed an ADEQ Approval To Construct for either the 110,000 gallon storage tank or its proposed well replacement project required in Decision No. 71869. Approval of the Company's request for WIFA loan authorization will enable it to address its delinquent Commission compliance issue. Staff recommends that the Company file for a time extension so it has the additional time it needs to obtain the loan and complete construction and obtain ADEQ's Approval of Construction ("AOC") for the additional plant.

Breakdown of Project Cost Estimate

The Company has estimated a total construction cost and funding amount of \$181,329 (rounded). A general description and breakdown of the funding amount requested is as follows:

Project Description	Location	Company's Estimated Cost (\$)
I. Replace Well #5 (DWR #55-622083)		
Replace well (well depth of 700' and 6" casing)	APN #102-09-008A	
Drill well		25,337.90
Well pump (a 65 GPM submersible pump) & electric wiring		5,500.00
Electric Conduit, control panel (including labor and installation)		5,740.20
6" water mains		27,537.02
Power line extension (\$16.66/ft) by APS		6,640.00
Power service wire (\$5.1/ft) by APS		102.00
Power switch gear (\$15,519/unit) by APS		15,519.00
One 277/480 V transformer (\$13,277/unit) by APS		13,277.00
One chlorinator		700.00
6' tall chain link fence and a well house		10,000.00
Subtotal		110,377.12
5% Engineering and Contingencies		5,518.86
Total		115,895.98
II. Tank #3 Project		
50,000 gallon tank	Intersection of Levie Lane & Rainmaker Rd	
Engineering Design & survey cost		2,000.00
Construction permit fee		500.00
Bedding & Foundation installation		502.27
Soil compaction report		515.00
Installation of one 50,000 gallon tank (16' in height)		57,850.00
6" & 4" Valves , 6" pipes & 6" & 8" tees		940.25
Subtotal		62,307.52
5% Engineering and Contingencies		3,115.37
Total		65,422.89
Total		181,328.87

Staff concludes that the Company's Decision to install a new replacement well and add additional storage capacity of 50,000 gallons to its water system reasonable. Staff concludes that the Financing Application is appropriate and the costs are reasonable. However, no "used and useful" determination of the project item was made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Approval of Construction ("AOC")

Staff recommends that Granite Mountain file with Docket Control as a compliance item in this matter, copies of an ADEQ Approval To Construct ("ATC") for proposed well and storage tank within 90 days of this decision. Staff further recommends that Granite Mountain file with Docket Control a copy of AOC for both plant additions as a compliance item in this docket within 180 days of obtaining the ATC.

SUMMARY

I. Conclusions

1. ADEQ reported that Granite Mountain has no major deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. Granite Mountain is located in the Prescott AMA. ADWR has determined that the Company is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. A check of the ACC Utilities Division Compliance database showed there were no delinquent ACC compliance items for the Company.
4. Staff concludes that the proposed project is appropriate and the cost estimates presented herein are reasonable for purposes of this financing request. However, no "used and useful" determination of the proposed project item was made and no particular treatment should be inferred for rate making or rate base purpose in the future.
5. Staff believes that the Company's proposal to add additional well production and storage as proposal compliance with the requirement of Decision No. 71869.

II. Recommendations

1. Staff recommends that Granite Mountain file with Docket Control as a compliance item in this matter, copies of an ADEQ Approval To Construct ("ATC") for proposed well and storage tank within 90 days of this decision. Staff further recommends that Granite Mountain file with Docket Control a copy of AOC for both plant additions as a compliance item in this docket within 180 days of obtaining the ATC.